

SMALL BUSINESS LOAN FUND CORPORATION

MINUTES OF THE BOARD OF DIRECTORS

April 28, 2011

PUBLIC SESSION

A monthly meeting of the Board of Directors (the "Board") of the Small Business Loan Fund Corporation (the "Corporation") was held in public session at the offices of the Rhode Island Economic Development Corporation, 315 Iron Horse Way, Suite 101, Providence, Rhode Island on April 28, 2011 at approximately 9:30 a.m., pursuant to notice of the meeting to all Directors, and public notice of the meeting as required by the By-Laws of the Corporation and by Rhode Island General Law 42-46-6.

The following Directors were present and participated throughout the meeting: Mr. Richard DeMerchant, Mr. William Parsons, Mr. Thomas Stocker and Ms. Leslie Taito.

The following Director(s) were absent: Mr. Raymond Fogarty.

Also present were: Sean W. Esten, Corporation Administrator, Steven Noack, Corporation Administrator, Stacy Farrell, Corporation Staff, Susan Morgan, Director of Accounting, J. Michael Saul, Managing Director of Financial Services, and John J. Garrahy, Legal Counsel, Moses & Afonso, Ltd.

Mr. DeMerchant presided over the meeting.

1. Call to Order.

Mr. DeMerchant called the meeting to order at 9:35 a.m.

2. Approval of the Minutes of the Meeting Held on March 23, 2011.

The first item to come before the Board was approval of the Public Session Minutes and the Executive Session Minutes of the Board meeting held on March 23, 2011. Upon motion duly made by Mr. DeMerchant and seconded by Mr. Parsons, the motion to approve the Public Session Minutes and the Executive Session Minutes of the meeting held on March 23, 2011 was duly adopted.

The following Directors voted in favor of the foregoing: Ms. Taito and Mr. Stocker.

The following Directors voted against the foregoing: None.

The following Directors were absent for the vote: Mr. Raymond Fogarty.

3. Maintain the Executive Minutes of March 23, 2011 Confidential.

The next item to come before the Board was a vote to maintain the confidentiality of the Executive Session Minutes of the Board meeting held on March, 2011. Upon motion duly made by Mr. DeMerchant and seconded by Mr. Stocker, the motion to maintain the confidentiality of the Executive Session Minutes of the Board meeting held on March 23, 2011 was duly adopted.

The following Directors voted in favor of the foregoing: Mr. Parsons and Ms. Taito.

The following Directors voted against the foregoing: None.

The following Directors were absent for the vote: Mr. Raymond Fogarty.

4. Report of Cash Position as of March 31, 2011.

Mr. Esten presented the report of Cash Position as of March 31, 2011. Mr. Esten indicated that the total funds currently committed totaled approximately \$376,000, leaving a total \$3.4 million in cash. Mr. Esten further explained that of this amount the Corporation maintains a reserve of \$500,000 to cover its expenses. The remainder is available to lend at this time. Mr. Esten indicated that the increase was due to the lack of approved loans in addition to continued payments and payoffs of current borrowers. Mr. DeMerchant questioned the need for the \$500,000 reserve and what expenses would be taken from this if necessary. Mr. Esten replied that the reserve was equal to a year's worth of the Corporation's expenses which include legal fees and staff salaries. This is to sustain the Corporation in the event that it did not receive income from the current portfolio. The goal in administering the fund is to have only the reserve (\$500,000) in cash on hand and the remainder lent out. Mr. DeMerchant questioned whether the Corporation would be in compliance at its next reporting cycle with the Economic Development Agency. Mr. Esten indicated that the cash level would be out of compliance; however there would not be action to sequester funds unless the level remained excessive in the next reporting cycle which was scheduled for October of 2011. Mr. Saul reminded the Board of the memo presented at the meeting of the Board in March which addressed this issue.

There were no other questions or discussions from the Board.

5. Delinquency Loan Report as of March 31, 2011.

Mr. Stocker asked staff to address any updates available in regards to the businesses on the Delinquency Loan Report as of March 31, 2011. Mr. Saul indicated that one borrower; Cleanscape, Inc. was in the process of filing for Receivership. Mr. Esten further advised that Nationwide Diesel was restructuring their loan and would come off the report by the next meeting. Mr. Noack added that Malco Saw submitted a full payment since the date of the report. Additionally, Mr. Noack advised that he attended the creditors meeting for Crisloid, and that he felt this would ultimately end up as a write off. In regards to

Concordia, Mr. Noack felt that since their restructure, in which they divested their medical unit, their cash may have temporarily been impacted; however he was confident they would be caught up on payments within a month or so. Mr. Parson referenced the addition of Digication on the report. Mrs. Farrell advised that due to an incorrect payment allocation in the accounting software platform, the company was on this report inadvertently. They are current on their payments and would not show on the next report cycle. Mr. Saul addressed the Board regarding Red Farm Studios and indicated that the Corporation is seeking to pursue its remedies in the form of the personal guarantees of the borrowers. Mr. Noack brought Alidade to the attention of the Board and indicated that the owner and Chief Operating Officer of the company came to the Corporation's offices to discuss their loan with Mr. Noack. They are experiencing some cash flow issues as a result of difficult times in the defense industry. It is anticipated that they will work to get their payments current. Mr. Stocker noted that Modulus Furniture made a payment. Mr. Noack confirmed, stating that although it was a small payment it was a gesture as to their commitment to repay the loan. Ms. Taito question the status of Benjamin Box and Mr. Esten indicated he anticipated it to be a write off as the business is no longer in operation. Mr. Saul informed the Board that loan charge offs would be ready for discussion at the May meeting of the Board.

There were no other questions or discussions from the Board.

6. Employment Reporting update and delinquency

Mr. DeMerchant asked that staff provide an update on the reporting of employment figures and which companies remained outstanding. Mrs. Farrell addressed the Board and indicated that the compliance as of April 15th was at 82%. Of those outstanding, there were a total of five companies that reports were not anticipated from as they were also severely delinquent with their payments. A final notice was sent to those which remained delinquent in reporting employment figures. Mrs. Farrell also advised that these companies had until May 15th to comply or the default rate would be implemented. Mr. Saul suggested that future reports should not include those companies which were delinquent with payments in order to get a better picture of the active portfolio reporting statistics. There were no other questions or discussions from the Board.

7. Application Process procedure

Mrs. Farrell referenced the Memo regarding the Application Process which was provided with the procedure. Mrs. Farrell felt the objective in developing the process was to ensure transparency through the agency as well as with the applicants regarding the timeline in applying for financing as well as the steps involved to do so. Mr. Saul added that the necessity was to update the procedures due to staff turnover and the period of understaffing which was experienced. It is also a tool to ensure good customer service and communication is provided by staff to prospective clients. Mr. Saul also noted that additional steps have been taken by staff in the form of distribution of prospective client pipelines with senior staff as well as assigning Business Development staff to each applicant. Mr. Stocker questioned how this process compared to that of a Commercial bank

and if the documentation required was similar. Mrs. Farrell indicated that in her experience in banking the process was similar. In regards to requested documentation, the requirements were pointed out in the application which Mrs. Farrell felt were similar to those required to obtain bank financing. Mr. Stocker added that he felt some of the criticism of the program came in the opinion that the requirements were too onerous. Mr. Stocker recommended that staff provide a timeline for each client in order to better track the actual length of time applicants remained on the pipeline. Mr. Saul added that it should be taken into consideration the fact that requests are subject to Board meeting which takes place only once a month whereas Banks have finance programs which can move forward with managerial approval or that have the option to meet as often as necessary to keep the application process in motion. Mr. Stocker proposed that staff provide a timeline for each client so that the Board could better gauge how long the process took. Mr. Saul asked for a 60 reprieve on providing this in order for staff to attend additional system training and develop tools and databases to do so. Mr. Stocker also proposed that staff provide to the Board on a monthly basis the number of applicants in the pipeline and the dollar amount requested for each. Mr. Saul advised that the staff could do so monthly.

There were no other questions or discussions from the Board.

8. Executive Session

Mr. DeMerchant suggested that the Board move into Executive Session. Upon motion duly made by Mr. DeMerchant and seconded by Mr. Stocker, the motion to move the meeting into executive session pursuant to Rhode Island Open Meetings Law 42-46-5(a)(6) of the General Laws of the State of Rhode Island, as amended, was duly adopted.

The following Directors voted in favor of the foregoing: Mr. Parsons, and Ms. Taito.

The following Directors voted against the foregoing: None.

The following Directors were absent for the vote: Mr. Fogarty.

Public session concluded and executive session began at 10:03 a.m.

9. Return to Public Session

Upon a motion duly made by Mr. DeMerchant and seconded by Mr. Parsons, the motion to conclude executive session and return to public session was duly adopted.

The following Directors voted in favor of the foregoing: Mr. Stocker, and Ms. Taito.

The following Directors voted against the foregoing: None.

The following Directors were absent for the vote: Mr. Fogarty.

Executive session concluded and public session began at 11:07 a.m.

10. Executive Session Vote Ratification

Mr. DeMerchant called for ratification of the votes adopted during Executive Session. Upon motion duly made by Mr. Stocker and seconded by Mr. Parsons, the following votes were ratified:

- (a) To approve the request for a \$250,000 loan by CompuClaim, Inc.
- (b) To table the request for a \$250,000 loan by Baccala Concrete until the next meeting of the Board of Directors so that staff may gather additional information requested by the Board.
- (c) To approve the request for a \$250,000 loan by MEDfx Corporation.
- (d) To decline the request for a \$250,000 loan by Colonial Mills, Inc.

The following Directors voted in favor of the foregoing: Ms. Taito and Mr. DeMerchant.

The following Directors voted against the foregoing: None.

The following Directors were absent for the vote: Mr. Fogarty.

11. Other Business.

Mr. Saul introduced to the Board a proposal for the potential creation of a fund with the goal to provide temporary help to those defense contractors affected by NAVSEA's (Naval Sea Systems Command) decision to pull contract payments out of NUWC (Naval Undersea Warfare Center). The proposal was being presented to the Board for approval; however Mr. Saul indicated that it would then be subject to the approval of the Governor prior to implementation. Mr. Saul commented that the program was consistent with those done in the past to aid business affected by floods and fire code issues. It would entail carving out approximately \$250,000 from the SBLF and using it to provide temporary bridge financing for those companies in need. Mr. Parsons asked if the Board approved and the Governor rejected it what would be the ultimate result. Mr. Saul confirmed that the Corporation would not move forward in implementing the program.

Upon motion duly made by Mr. Stocker and seconded by Ms. Taito, the motion to vote on the proposed Defense Contractors Fund contingent upon an approval by the Governor's Administration was duly adopted.

The following Directors voted in favor of the foregoing: Mr. Parsons and Mr. DeMerchant.

The following Directors voted against the foregoing: None.

The following Directors were absent for the vote: Mr. Raymond Fogarty.

Mr. Stocker then requested that the motion be amended to indicate that the approval include the ability to increase the fund amount to \$500,000 if need be without further vote from the SBLFC Board. A motion to amend was duly made by Mr. Stocker and seconded by Ms. Taito; the motion to amend the vote on the proposed Defense Contractors Fund was adopted.

The following Directors voted in favor of the foregoing: Mr. Parsons and Mr. DeMerchant.

The following Directors voted against the foregoing: None.

The following Directors were absent for the vote: Mr. Raymond Fogarty.

There being no further business to come before the Board, Mr. DeMerchant called for a vote to adjourn the meeting. Upon motion duly made by Mr. Parsons and seconded by Ms. Taito, the motion to adjourn the meeting was duly adopted.

The following Directors voted in favor of the foregoing: Mr. Stocker, and Mr. DeMerchant.

The following Directors voted against the foregoing: None.

The following Directors were absent for the vote: Mr. Fogarty.

The meeting was adjourned at 11:14 a.m.

Respectfully submitted,

/s/ Sean W. Esten
Sean W. Esten, Administrator

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